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IRS and States Announce Partnership to Target Abusive Tax Avoidance Transactions

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WASHINGTON — Internal Revenue Service and state tax officials today announced the establishment of a new nationwide partnership to combat abusive tax avoidance. Under agreements with individual states, the IRS will share information on abusive tax avoidance transactions and those taxpayers who participate in them.

The agreements creating this partnership are designed to enable both state and federal governments to move more aggressively in the fight to ensure all taxpayers pay their fair share. Forty states and the District of Columbia join the IRS today in announcing the signing of agreements.

"This agreement marks a milestone in state and federal cooperation," said IRS Commissioner Mark W. Everson. "From today forward, we will work together combating abusive tax schemes. We will share information and coordinate case management. This agreement effectively extends the resources of the IRS and the states."

Under the partnership, the IRS will exchange information about abusive tax avoidance transaction leads with participating states. This will allow the IRS and state agencies to avoid duplication and to piggyback on the results of each other's work. The states and the IRS will then share information on any resulting tax adjustments, reducing the need for duplicating lengthy taxpayer examinations by both a state and the IRS.

Representatives from California, Louisiana, Maryland, Massachusetts, New Jersey, New York, Virginia and the District of Columbia joined with Everson for today's announcement of the historic initiative.

"The states and the IRS share a common goal to dry up abusive schemes," said Stephen M. Cordi, President of the Federation of Tax Administrators and deputy comptroller of Maryland. "This new partnership will strengthen overall tax administration at the federal and state levels and present a united compliance front against those taxpayers tempted by improper avoidance transactions." The Federation of Tax Administrators (FTA) represents all state tax agencies in the 50 states, the District of Columbia and New York City.

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The additional 33 states announcing the signing of the partnership agreement include: Alabama, Arizona, Arkansas, Connecticut, Georgia, Florida, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Minnesota, Mississippi, Missouri, Montana, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Utah, Vermont, Washington, West Virginia and Wisconsin. More states are expected to sign the agreement in the weeks ahead.

The Abusive Tax Avoidance Transactions (ATAT) memorandum of understanding between individual states and the IRS was a joint effort, negotiated over the past year, by representatives of the IRS Small Business/Self-Employed (SB/SE) Division, FTA and several state tax agencies.

SB/SE Commissioner Dale F. Hart stated at today's event, "This agreement is a testament to the positive impact that partnering can have on good tax administration. It's a smart, common-sense approach and the latest in the government's ongoing efforts to ensure the fairness of the American tax system."

The ATAT memorandum of understanding focuses solely on abusive tax avoidance transactions. The agreement leaves procedures governing communication on more routine taxpayer compliance efforts unchanged. This maintains the important separation of federal and state tax authority and protection of taxpayer privacy.

"We treat taxpayer privacy as a top priority," said Everson. "This agreement does not impede our high standards for protecting taxpayer rights or privacy. The information shared under this agreement will be strictly limited to that pertaining to abusive transactions."

In addition to greater cooperation in sharing leads in the area of abusive tax transactions, the partnership with the states includes joint outreach activities to the public to more effectively counter the claims of those marketing tax schemes and scams.

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